Our search of the post-1999 credit and welfare reform literature turned up no large-scale studies that focused primarily on credit and financial management issues. However, enough of them touched upon household debt issues to convince us of the need for more credit-related research.

In their in-depth survey in Cuyahoga County, Ohio, for example, Verma and her colleagues found three-quarters of all leavers had some debt, with nearly 40% owing $2,000 or more (Verma, Coulton, Hendra and Polousky, 2001, p. 57). A two-year study of 970 families in Oregon that left or were diverted from TANF in the first quarter of 1998 also found rising debt-to-income ratios and a diminishing ability to stave off crises during an economic downturn (Acker, Morgan and Gonsales, 2002, p. 17.) About half the households in a study of 670 families in Massachusetts that left welfare between December 15, 1998, and April 30, 1999, owed money, with their debts having increased after welfare was terminated. Overdue utility bills were the most common source of debt (53%); credit card debt was owed by 43% of respondents and medical bills by nearly a third (31%) of those who had left the rolls for reasons other than having reached their time limits (Seavy, 2001, pp. 7-8).

Finally, a follow-up study of 16 of the poorest families who exited Iowa's rolls in the third quarter of 1998 found most to be heavily in debt; these included "one family who owed $35,000 in student loans plus $6,000 in credit card debt; another with $8,000 in hospital bills; another owed $4,000 in child support; and another owed $2,000 in back taxes plus $1,500 in credit card bills" (Hill and Kauff, 2001, p.12.)

With as many as one in three TANF families returning to welfare within two years of leaving, (Hofferth, 2002), it is important that policy makers learn more about the role that credit use and debt management play in the welfare cycle. Using a unique statewide database, we analyze the financial services behavior—including banking relationships, the use of mainstream and high-cost non-bank credit, and debt management—of low-income households in North Carolina, including TANF recipients and those who have recently transitioned off welfare. Our findings suggest, first, that the